First Federal of Northern Michigan Bancorp, Inc.
Form 10QSB
November 14, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________ to ____________________

Commission File Number 000-31957

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	32-0135202
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 S. SECOND AVENUE, ALPENA, MICHIGAN	49707
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (989) 356-9041

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X .

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, Par Value $0.01	Outstanding at November 10, 2006
(Title of Class)	3,034,999 shares

Transitional Small Business Disclosure Format: Yes ___ No _X_ .

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2006

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When used in this Form 10-QSB or future filings by First Federal of Northern Michigan Bancorp, Inc. (the "Company") with the Securities and Exchange Commission ("SEC"), in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's

actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	September 30, 2006	Decem
	(Unaudited)	
ASSETS		
Cash and cash equivalents:		
Cash on hand and due from banks	$ 4,709,368	$
Overnight deposits with FHLB	180,555	
Total cash and cash equivalents	4,889,923	
Securities AFS	46,581,044	5
Securities HTM	1,775,000	
Loans held for sale	391,000	
Loans receivable, net of allowance for loan losses of $1,688,563 and $1,415,764 as of September 30, 2006 and December 31, 2005, respectively	211,564,574	20
Foreclosed real estate and other repossessed assets	406,505	
Real estate held for investment	135,543	
Federal Home Loan Bank stock, at cost	4,361,500	
Premises and equipment	8,090,543	
Accrued interest receivable	2,040,808	
Intangible assets	2,714,344	
Goodwill	1,349,854	
Other assets	2,068,118	
Total assets	$286,368,756	$28
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$181,182,119	$18
Advances from borrowers for taxes and insurance	194,098	
Federal Home Loan Bank advances and Note Payable	67,026,334	5
Accrued expenses and other liabilities	2,426,917	
Total liabilities	250,829,468	24
Commitments and contingencies	--	
Stockholders' equity:		
Common stock ($0.01 par value 20,000,000 shares authorized 3,190,999 and 3,115,510 shares issued, respectively)	31,910	

Additional paid-in capital	24,261,081	2
Retained earnings	14,877,649	1
Treasury stock at cost (156,000 shares)	(1,565,359)	
Unallocated ESOP	(1,116,293)	(
Unearned compensation	(559,503)	
Accumulated other comprehensive loss	(390,197)	
Total stockholders' equity	35,539,288	3
Total liabilities and stockholders' equity	$286,368,756	$28

See accompanying notes to consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	For the Three Months Ended September 30,		For the Ni Ended Sept
	2006	2005	2006
	(Unaudited)		(Unaud
Interest income:			
Interest and fees on loans	$4,045,724	3,395,050	$11,070,141
Interest and dividends on investments	508,482	444,203	1,617,813
Interest on mortgage-backed securities	48,621	59,803	156,610
Total interest income	4,602,827	3,899,056	12,844,564
Interest expense:			
Interest on deposits	1,426,972	1,127,496	3,993,494
Interest on borrowings	826,375	555,162	2,252,832
Total interest expense	2,253,347	1,682,658	6,246,326
Net interest income	2,349,480	2,216,398	6,598,238
Provision for loan losses	216,357	3,800	418,857
Net interest income after provision for loan losses	2,133,123	2,212,598	6,179,381
Non interest income:			
Service charges and other fees	280,096	262,239	801,226
Mortgage banking activities	72,779	155,811	239,172
Gain (loss) on sale of available-for-sale securities	--	--	(43,565)
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	(6,971)	(7,746)	(2,965)
Other	32,863	20,555	79,791
Insurance and brokerage commissions	712,119	724,993	2,219,190
Total non interest income	1,090,886	1,155,852	3,292,849
Non interest expense:			
Compensation and employee benefits	1,518,219	1,571,682	4,677,125

SAIF Insurance Premiums	5,877	5,913	18,330
Advertising	64,924	58,635	197,636
Occupancy	326,637	340,841	1,028,724
Amortization of intangible assets	124,881	85,149	374,642
Service bureau charges	93,970	87,348	271,842
Insurance and brokerage commission expense	252,757	290,261	799,997
Professional services	38,134	40,845	198,552
Donation to First Federal Community Foundation	--	--	--
Other	309,680	341,708	949,054
Total non interest expense	2,735,079	2,822,382	8,515,902
Income before income tax expense	488,930	546,068	956,328
Income tax expense	163,275	182,723	319,955
Net income	$ 325,655	$ 363,345	$ 636,373
Per share data:			
Basic earnings per share	$ 0.11	$ 0.12	$ 0.21
Weighted average number of shares outstanding	3,039,173	3,100,511	3,097,204
Diluted earnings per share	$ 0.11	$ 0.12	$ 0.21
Weighted average number of shares outstanding, including dilutive stock options	3,040,130	3,110,617	3,098,168
Dividends per common share	$ 0.050	$ 0.050	$ 0.150

See accompanying notes to consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	Issued Shares	Common Stock	Treasury Stock	Additional Paid-in Capital	Co
Balance at December 31, 2005	3,115,510	$31,155	$ --	$23,560,462	
Stock options exercised (18,560 shares)	18,560	186	--	98,764	
Retired Stock (6,321 shares)	(6,321)	(63)	--	(60,302)	
Treasury Stock at cost (114,167 shares)	--	--	(1,565,359)	--	
Stock Options/Awards Expensed	--	--	--	44,192	
MRP shares awarded (63,250 shares)	63,250	632	--	609,730	
Unallocated ESOP	--	--	--	(6,936)	
Net income for the period	--	--	--	--	
Changes in unrealized loss: on available-for-sale securities (net of tax of $35,042)	--	--	--	--	
Total comprehensive income	--	--	--	--	
Tax benefit on stock options exercised	--	--	--	15,171	
Dividends declared	--	--	--	--	
Balance at September 30, 2006	3,190,999	$31,910	$(1,565,359)	$24,261,081	$

	Retained Earnings	Unallocated ESOP	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2005	$14,703,130	(1,186,940)	(458,221)	$36,649,
Stock options exercised (18,560 shares) ..	--	--	--	98,
Retired Stock (6,321 shares)	--	--	--	(60,
Treasury Stock at cost (114,167 shares) ..	--	--	--	(1,565,
Stock Options/Awards Expensed	--	--	--	95,
MRP shares awarded (63,250 shares)	--	--	--	
Unallocated ESOP	--	70,647	--	63,
Net income for the period	636,373	--	--	636,
Changes in unrealized loss:				
on available-for-sale securities				
(net of tax of $35,042)	--	--	68,024	68,
Total comprehensive income	--	--	--	704,
Tax benefit on stock options exercised ...	--	--	--	15,
Dividends declared	(461,854)	--	--	(461,
Balance at September 30, 2006	$14,877,649	$(1,116,293)	$(390,197)	$35,539,

See accompanying notes to consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Nine Mon September	
	2006	
	(Unaudite	
Cash flows from operating activities:		
Net income	$ 636,373	$
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	778,455	
Provision for loan loss	418,857	
Amortization and accretion on securities	64,961	
(Gain) loss on sale of securities	43,565	
Originations of loans held for sale	(10,484,134)	(
Principal amount of loans sold	10,093,134	
Purchase of real estate held for sale	--	
Proceeds from sale of real estate held for sale	912,590	
Gain on sale of real estate held for investment	(1,412)	
Proceeds from Sale of Premises & Equipment	--	
Loss on sale of premises and equipment	3,309	
Change in accrued interest receivable	(439,117)	

Change in other assets	553,231	
Change in accrued expenses and other liabilities	(532,194)	
Stock Options/Awards expensed	95,051	
Stock donated to charitable foundation	--	
Net cash provided by operating activities	2,142,669	
Net Increase in loans	(10,800,355)	
Proceeds from maturity and sale of available-for-sale securities	8,801,285	
Purchase of securities available for sale	(1,976,205)	(
Purchase of Federal Home Loan Bank Stock	--	
Proceeds from Sale of Federal Home Loan Bank Stock	403,500	
Purchase of premises and equipment	(1,771,725)	
Net cash used in investing activities	(5,343,500)	(
Net Increase (decrease) in deposits	(7,552,624)	
Dividend paid on common stock	(461,854)	
ESOP shares committed to be released	63,711	
Net increase in advances from borrowers	166,389	
Additions to advances from Federal Home Loan Bank and notes payable	19,240,000	
Repayments of Federal Home Loan Bank advances and notes payable	(6,617,288)	(
Stock retired	(60,365)	
Proceeds from exercise of stock options	98,950	
Net proceeds from stock offering	--	
Merger of Alpena Bancshares, MHC	--	
Cash paid for fractional shares in conversion	--	
Purchase of shares for ESOP	--	
Purchase of treasury shares	(1,565,359)	
Net cash provided by financing activities	3,311,560	
Net increase (decrease) in cash and cash equivalents	110,729	
Cash and cash equivalents at beginning of period	4,779,194	
Cash and cash equivalents at end of period	$ 4,889,923	$
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 363,790	$
Cash paid during the period for interest	$ 6,193,470	$

See accompanying notes to the consolidated financial statements

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting and include the accounts of First Federal of Northern Michigan Bancorp, Inc., and its wholly owned subsidiary, First Federal

of Northern Michigan (the "Bank") and its wholly owned subsidiaries Financial Service and Mortgage Corporation ("FSMC") and the InsuranCenter of Alpena ("ICA"). FSMC invests in real estate that includes leasing, selling, developing, and maintaining real estate properties. ICA is a licensed insurance agency engaged in the business of property, casualty and health insurance. All significant intercompany balances and transactions have been eliminated in the consolidation.

These interim financial statements are prepared without audit and reflect all adjustments, which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2006, and its results of operations and statement of cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary and should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in the Annual Report for the year ended December 31, 2005. Results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are prepared in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. We consider accounting policies that require significant judgment and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. Changes in underlying factors, assumptions or estimates could have a material impact on our future financial condition and results of operations. Based on the size of the item or significance of the estimate, the following accounting policies are considered critical to our financial results.

Allowance for Loan Losses. The allowance for loan losses is calculated with the objective of maintaining an allowance sufficient to absorb estimated probable loan losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective, as it requires an estimate of the loss content for each risk rating and for each impaired loan, an estimate of the amounts and timing of expected future cash flows, and an estimate of the value of collateral.

We have established a systematic method of periodically reviewing the credit quality of the loan portfolio in order to establish an allowance for losses on loans. The allowance for losses on loans is based on our current judgments about the credit quality of individual loans and segments of the loan portfolio. The allowance for losses on loans is established through a provision for loan losses based on our evaluation of the losses inherent in the loan portfolio, and considers all known internal and external factors that affect loan collectibility as of the reporting date. Our evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, our knowledge of inherent losses in the portfolio that are probable and reasonably estimable and other factors that warrant recognition in providing an appropriate loan loss allowance. Management believes this is a critical accounting policy because this evaluation involves a

high degree of complexity and requires us to make subjective judgments that often require assumptions or estimates about various matters. Historically, we believe our estimates and assumptions have proven to be relatively accurate.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze delinquency trends, which have remained stable, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. The principal assumption used in deriving the allowance for loan losses is the estimate of loss content for each risk rating. As an example, if recent loss experience dictated that the projected loss ratios would be changed by 10% (of the estimate) across all risk ratings, the allocated allowance as of September 30, 2006 would have changed by approximately $158,000. Actual loan losses may be significantly more than the allowances we have established, which could have a material negative effect on our financial results.

Mortgage Servicing Rights. We sell to investors a portion of our originated one- to four-family residential real estate mortgage loans. When we acquire mortgage servicing rights through the origination and sale of mortgage loans with servicing rights retained, we allocate a portion of the total cost of the mortgage loans to the mortgage servicing rights based on their relative fair value. As of September 30, 2006, we were servicing loans sold to others totaling $137.7 million. We amortize capitalized mortgage servicing rights as a reduction of servicing fee income in proportion to, and over the period of, estimated net servicing income by use of a method that approximates the level-yield method. We periodically evaluate capitalized mortgage servicing rights for impairment using a model that takes into account several variables including expected prepayment speeds and prevailing interest rates. If we identify impairment, we charge the amount of the impairment to earnings by establishing a valuation allowance against the capitalized mortgage servicing rights asset. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speed. We monitor this risk and adjust the valuation allowance as necessary to adequately record any probable impairment in the portfolio. Management believes the estimation of these variables makes this a critical accounting policy. For purposes of measuring impairment, the mortgage servicing rights are stratified based on financial asset type and interest rates. In addition, we obtain an independent third-party valuation of the mortgage servicing portfolio on a quarterly basis. In general, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall. This is because the estimated life and estimated income from a loan increase as interest rates rise and decrease as interest rates fall. The key economic assumptions made in determining the fair value of the mortgage servicing rights at September 30, 2006 included the following:

Annual constant prepayment speed (CPR):	10.70%
Weighted average life remaining (in months):	248
Discount rate used:	8.50%

At the September 30, 2006 valuation, we calculated the value of our

mortgage servicing rights to be $1.4 million and the weighted average life remaining of those rights was 49 months. The book value of our mortgage servicing rights as of September 30, 2006 was $643,000 which was $748,000 less than the independent valuation, so there was no need to establish a valuation allowance.

Impairment of Intangible Assets. Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. The fair value of goodwill is dependent upon many factors, including our ability to provide quality, cost-effective services in the face of competition. Because of these many factors, management believes this is a critical accounting policy. A decline in earnings as a result of business or market conditions or a run-off of insurance customers over sustained periods could lead to an impairment of goodwill that could adversely affect earnings in future periods.

A significant portion of our intangible assets, including goodwill, relates to the acquisition premiums recorded with the purchase of the InsuranCenter of Alpena ("ICA") and certain branches over the last several years. Intangible assets are reviewed periodically for impairment by comparing the fair value of the intangible asset to the book value of the intangible asset. If the book value is in excess of the fair value, impairment is indicated and the intangibles must be written down to their fair value.

In connection with our acquisition in 2003 of ICA, we allocated the excess of the purchase price paid over the fair value of net assets acquired to intangible assets, including goodwill. These intangible assets included the ICA customer list and a third-party contract to which ICA is a party. From the date of acquisition through April 30, 2005 we amortized the value assigned to the customer list and contract over a period of 20 years. On May 1, 2005 the former owner of ICA retired. As a result, the amortization period for these intangible assets was reduced to a 10 year period beginning May 1, 2005. Effective January 1, 2006, the exclusive third-party contract between ICA and Blue Cross Blue Shield of Michigan was terminated. Prior to January 1, 2006 the ICA exclusive agent contract with Blue Cross Blue Shield entitled ICA to an override commission of 1.9% on all health premiums written through local Chambers of Commerce in Northeast Michigan. On any health insurance contracts in place as of December 31, 2005, ICA will continue to receive the 1.9% commission; however, there will be no new groups added to this program effective January 1, 2006. Management considered the potential effect this could have on ICA health insurance commissions in future years and made the decision to reduce the amortization period of the third-party contract intangible asset to 5 years effective January 1, 2006.

Goodwill is not amortized. The impairment test of goodwill and identified intangible assets that have an indefinite useful life, performed as of September 30, 2006 and December 31, 2005 in accordance with SFAS No. 142, did not indicate that an impairment charge was required. If, through testing, we determine that there is impairment based, for example, on significant runoff of the customer list or material changes to the third-party contract, then we may determine to reduce the recorded value of those intangible assets, which would increase expense and reduce our earnings.

In connection with branch office acquisitions, we assigned the excess of the purchase price over the fair value of the assets acquired to a core deposit intangible. The core deposit intangible is tested periodically for impairment. Our original estimates for the expected life of the deposits have proven to be

relatively accurate as evidenced by the fact that no impairment has been recorded. If we determine through testing that a significant portion of the acquired customers no longer do business with us, then the asset would be deemed to be impaired thereby requiring a charge to earnings to the extent appropriate given all of the known factors. We amortize core deposit intangibles over a period of between 10 and 15 years.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140. SFAS 156 amends SFAS Statement No.140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. SFAS 156 will be adopted by the Company January 1, 2007 as required by the statement. The Company does not believe adoption of SFAS 156 will have a material effect on the financial position, results of operations, or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in the financial statements the impact of a tax position if that position is more likely than not to be sustained on audit based on technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to operating retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

NOTE 2--REORGANIZATION.

On April 1, 2005, we consummated the second-step mutual-to-stock conversion of Alpena Bancshares, M.H.C., in which shares of common stock representing Alpena Bancshares, M.H.C.'s ownership interest in Alpena Bancshares, Inc. were sold to investors. As a result of the conversion and stock offering, Alpena Bancshares, M.H.C. ceased to exist and Alpena Bancshares, Inc. was succeeded by First Federal of Northern Michigan Bancorp, Inc., a Maryland corporation and new holding company for First Federal of Northern Michigan.

The plan of conversion and reorganization of Alpena Bancshares, M.H.C. and the issuance and contribution of cash and common stock to First Federal Community Foundation, a charitable foundation established by the Company, were approved by the stockholders of Alpena Bancshares, Inc. and the members of Alpena Bancshares, M.H.C. on March 23, 2005.

First Federal of Northern Michigan Bancorp, Inc. accepted orders to purchase 1,699,869 shares of common stock at a purchase price of $10.00 per share. As a part of the conversion, public stockholders of the Company as of the consummation date received 1.8477 shares of First Federal of Northern Michigan Bancorp, Inc. common stock in exchange for each of their existing shares of Company common stock. Cash was issued in lieu of any fractional shares. The share exchange occurred on April 1, 2005.

Any references in this report to the number of shares outstanding for the nine months ended September 30, 2005 for purposes of calculating per share earnings and to dividends per share for the same period has been adjusted to give retroactive recognition to the exchange ratio applied in the conversion.

NOTE 3--DIVIDENDS.

Payment of dividends on the common stock is subject to determination and declaration by the Board of Directors and depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, the Company's results of operations and financial condition, tax considerations and general economic conditions.

On September 19, 2006, the Company declared a cash dividend on its common stock, payable on or about October 20, 2006, to shareholders of record as of September 30, 2006, equal to $0.05 per share. The dividend on all shares outstanding totaled $151,750.

NOTE 4--1996 STOCK OPTION PLAN, 1996 RECOGNITION AND RETENTION PLAN AND 2006 STOCK-BASED INCENTIVE PLAN.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123 (Revised) "Shareholder Based Payments", which requires that the grant-date fair value of awarded stock options be expensed over the requisite service period. The Company's 1996 Stock Option Plan (the "1996 Plan"), which was approved by shareholders, permits the grant of share options to its employees for up to 127,491 shares of common stock (retroactively adjusted for the exchange ratio applied in the Company's 2005 stock offering and related second-step conversion). The Company's 2006 Stock-Based Incentive Plan (the "2006 Plan"), which was approved by the shareholders on May 17, 2006, permits the award of up to 242,740 shares of common stock of which the maximum number to be granted as Stock Options is 173,386 and the maximum that can be granted as Restricted Stock Awards is 69,354. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on five years of continual service and have ten year contractual terms. Certain options provide for accelerated vesting if there is a change in control (as defined in the Plans).

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation method that uses the assumptions noted in the following table. The weighted average fair value of options granted during the nine months ended September 30, 2006 was $2.49 per option granted. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options

granted is derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of the grant.

	2006
Expected Volatility	20%

Expected dividends	2.1%
Expected term (in years)	8.0
Risk- free rate	4.75%

A summary of option activity under the Plan during the nine months ended September 30, 2006 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2006	24,642	$6.36		
Granted	198,990	$9.56		
Exercised	(18,560)	$5.41		
Forfeited or expired	(540)	$5.41		
Outstanding at September 30, 2006	204,532	$9.50	9.57	$ 0
Exercisable at September 30, 2006	4,433	$5.87	5.49	$ 8,467

A summary of the status of the Company's nonvested shares as of September 30, 2006, and changes during the quarter ended September 30, 2006, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	2,218	$1.93
Granted	198,990	$2.49
Vested	(1,109)	$1.93
Forfeited	0	
Nonvested at September 30, 2006	200,099	$2.49

As of September 30, 2006 there was $1,009,975 of total unrecognized compensation cost related to nonvested share-based compensation arrangements under the Plan. That cost is expected to be recognized over a weighted-average period of 4.7 years. The total fair value of shares vested during the nine months ended September 30, 2006 was $2,140.

During the three months ended September 30, 2006 the Company awarded no shares under the Recognition and Retention Plan ("RRP"). Shares issued under the RRP and exercised pursuant to the exercise of the stock option plan may be either authorized but unissued shares or reacquired shares held by the Company as treasury stock.

NOTE 5 - COMMITMENTS TO EXTEND CREDIT

The Company is a party to credit-related financial instruments with

off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, stand by letters of credit, and commercial lines of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. The Company's exposure to credit loss is represented by the contracted amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At September 30, 2006, the Company had outstanding commitments to originate loans of $30.4 million. These commitments included $9.2 million for permanent one-to-four family dwellings, $4.1 million for non-residential loans, $665,000 of undisbursed loan proceeds for construction of one-to-four family dwellings, $8.3 million of undisbursed lines of credit on home equity loans, $589,000 of unused credit card lines, $4.4 million of unused commercial lines of credit, $1.3 million of undisbursed commercial construction, $5,000 of unused Letters of Credit and $1.8 million in unused Bounce Protection.

NOTE 6 - SUBSEQUENT EVENTS

Following a management evaluation of the Company's operations from both a financial and customer service perspective, the Board of Directors approved the closure of the Company's branch office in Ossineke, Michigan effective February 17, 2007. The branch accounts for about 7% of the Company's deposits. Due to the close proximity of this branch to the Company's two Alpena, Michigan branches, management believes that most of the deposits will be retained by the Company. The Company owns and intends to sell this branch facility which has an estimated fair market value that exceeds book value. Management believes the costs to exit this market will be minimal.

NOTE 7 - SEGMENT REPORTING

The Company's principal activities include banking through its wholly owned subsidiary, First Federal of Northern Michigan, and the sale of insurance products through its indirect wholly owned subsidiary, ICA, purchased in 2003. The Bank provides financial products including retail and commercial loans as well as retail and commercial deposits. ICA receives commissions from the sale of various insurance products including health, life, and property. The segments were determined based on the nature of the products provided to customers.

The financial information for each operating segment is reported on the basis used internally to evaluate performance and allocate resources. The allocations have been consistently applied for all periods presented. Revenues and expenses between affiliates have been transacted at rates that unaffiliated parties would pay. The only transaction between the segments thus far relates to a deposit on behalf of ICA included in the Bank. The interest income and interest expense for this transaction has been eliminated. All other transactions are with external customers. The performance measurement of the operating segments is based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The information presented is also not necessarily indicative of the segment's financial condition and results of operations if they were independent entities.

NOTE 7 - SEGMENT REPORTING (CONTINUED)

	For the Three Months Ended September 30, 2006 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 4,602	$ 8	$ (8)	$ 4,
INTEREST EXPENSE	2,256	5	(8)	2,
NET INTEREST INCOME - Before provision for loan losses	2,346	3	--	2,
PROVISION FOR LOAN LOSSES	217	--	--	
NET INTEREST INCOME - After provision for loan losses	2,129	3	--	2,
OTHER INCOME	377	714	--	1,
OPERATING EXPENSES	2,042	693	--	2,
INCOME - Before federal income tax	465	24	--	
FEDERAL INCOME TAX	156	8	--	
NET INCOME	$ 309	$ 16	$ --	$
DEPRECIATION AND AMORTIZATION	$ 177	$ 86	$ --	$
ASSETS	$282,694	$4,475	$(712)	$286,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	447	--	--	
TOTAL	$ 447	$ --	$ --	$

	For the Three Months Ended September 30, 2005 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 3,899	$ 3	$ (3)	$ 3,
INTEREST EXPENSE	1,686	--	(3)	1,
NET INTEREST INCOME - Before provision for loan losses	$ 2,213	3	--	2,
PROVISION FOR LOAN LOSSES	4	--	--	
NET INTEREST INCOME - After provision for loan losses	2,209	3	--	2,
OTHER INCOME	430	726	--	1,
OPERATING EXPENSES	2,125	697	--	2,
INCOME - Before federal income tax	514	32	--	
FEDERAL INCOME TAX	172	11	--	
NET INCOME	$ 342	$ 21	$ --	$

DEPRECIATION AND AMORTIZATION	$ 176	$ 56	$ --	$
ASSETS	$273,782	$3,542	$(476)	$276,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	146	2	--	
TOTAL	$ 146	$ 2	$ --	$

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For the Nine Months Ended September 30, 2006 (Dollars in Thousands)

	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 12,844	$ 15	$ (15)	$ 12,
INTEREST EXPENSE	6,246	15	(15)	6,
NET INTEREST INCOME - Before provision for loan losses	6,598	--	--	6,
PROVISION FOR LOAN LOSSES	419	--	--	
NET INTEREST INCOME - After provision for loan losses	6,179	--	--	6,
OTHER INCOME	1,069	2,224	--	3,
OPERATING EXPENSES	6,376	2,140	--	8,
INCOME - Before federal income tax	872	84	--	
FEDERAL INCOME TAX	292	28	--	
NET INCOME	$ 580	$ 56	$ --	$
DEPRECIATION AND AMORTIZATION	$ 520	$ 258	$ --	$
ASSETS	$282,694	$4,475	$(712)	$286,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	1,195	21	--	1,
TOTAL	$ 1,195	$ 21	$ --	$ 1,

For the Nine Months Ended September 30, 2006 (Dollars in Thousands)

	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 11,127	$ 7	$ (7)	$ 11,
INTEREST EXPENSE	4,933	--	(7)	4,
NET INTEREST INCOME - Before provision for loan losses	6,194	7	--	6,
PROVISION FOR LOAN LOSSES	266	--	--	
NET INTEREST INCOME - After provision for loan losses	5,928	7	--	5,
OTHER INCOME	1,144	2,210	--	3,
OPERATING EXPENSES	6,860	2,121	--	8,
INCOME - Before federal income tax	212	96	--	
FEDERAL INCOME TAX	71	32	--	
NET INCOME	$ 141	$ 64	$ --	$
DEPRECIATION AND AMORTIZATION	$ 500	$ 120	$ --	$
ASSETS	$273,782	$3,542	$(476)	$276,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	735	11	--	
TOTAL	$ 735	$ 11	$ --	$

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion compares the consolidated financial condition of the Company at September 30, 2006 and December 31, 2005, and the results of operations for the three- and nine-month periods ended September 30, 2006 and 2005. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

OVERVIEW

For the quarter ended September 30, 2006, the Company's earnings were $326,000 compared to earnings of $363,000 for the year earlier period, a decrease of $38,000. Year to date 2006 net income was $636,000 compared to the first nine months of 2005 when net income was $205,000.

The Bank's Return on Average Assets (ROA) for the trailing twelve months ended September 30, 2006 was 34 basis points compared to 30 basis points for the same period one year earlier. Management uses ROA as a tool to measure the performance of the Bank. ROA is reviewed on a trailing twelve month basis each

month by management and the Board of Directors.

CAPITAL EXPENDITURES

On August 31, 2005 the Company broke ground on a new bank branch to replace an existing leased branch in Lewiston, Michigan. As of September 30, 2006 the Company had expended approximately $1.2 million on the new branch, including the cost of the land and expects to expend approximately $5,000 more to complete the project. The new branch, which opened for business on June 26, 2006, will further enhance the Company's expansion into the Lewiston market.

FINANCIAL CONDITION

ASSETS: Total assets increased $3.6 million, or 1.3%, to $286.4 million at September 30, 2006 from $282.8 million at December 31, 2005. Investment securities available for sale decreased $6.8 million, or 12.8%, from December 31, 2005 to September 30, 2006, due to the sale of $7.0 million of low-yielding investment securities during the nine month period ended September 30, 2006. Net loans receivable increased $10.4 million, or 5.2%, to $211.6 million at September 30, 2006 from $201.2 million at December 31, 2005. The growth of net loans was attributable primarily to growth in the commercial loan portfolios.

LIABILITIES: Deposits decreased $7.6 million, or 4.0%, to $181.2 million at September 30, 2006 from $188.7 million at December 31, 2005. The decrease was primarily in statements savings and CD balances reflecting continued competition for deposits and increased pressure on market deposit rates. Despite the pay down of FHLB advances from the sale of investment securities during the nine month period ended September 30, 2006, FHLB advances increased $12.7 million, or 23.2%, to $67.0 million at September 30, 2006 from $54.4 million at December 31, 2005 to fund loan growth and the decline in deposits.

EQUITY: Stockholders' equity decreased by $1.1 million, or 3.0%, to $35.5 million at September 30, 2006 from $36.7 million at December 31, 2005. Net earnings for the quarter of $326,000 were partially offset by a dividend declaration of $151,750. During the quarter there was a decrease in the loss in value of securities available for sale of $287,000. In addition, during the quarter the Company repurchased an additional 41,833 shares of its common stock at an aggregate cost of $421,000 concluding the stock repurchase that was announced and commenced during the previous quarter.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

GENERAL: Net income decreased by $38,000 to $326,000 for the three months ended September 30, 2006 from $363,000 for the same period ended September 30, 2005. During the quarter ended September 30, 2006 the Company collected a large non-accrual commercial loan relationship which resulting in an additional $287,000 in interest income and late fees for the quarter. The provision for loan loss for the quarter ended September 30, 2006 was $216,000 as compared to $4,000 for the same quarter in 2005.

INTEREST INCOME: Interest income was $4.6 million for the three months ended September 30, 2006, compared to $3.9 million for the comparable period in 2005. The increase in interest income quarter over quarter was due primarily to the collection of a large commercial non-accrual loan relationship which resulted in

an additional $279,000 in interest income for the quarter. In addition, the average balances of non-mortgage loans increased $15.2 million from September 30, 2005 to September 30, 2006, reflecting the Company's continued emphasis on commercial lending. The yield on those loans increased from 7.17% to 7.81% over the same period, reflecting higher market interest rates. Offsetting increased commercial loan average balances was a decline in the average balance of mortgage loans of $7.0 million from September 30, 2005 to September 2006, resulting in lower mortgage loan interest income quarter over quarter as mortgage loan originations have slowed and we continue to sell longer term mortgage loans into the secondary market.

INTEREST EXPENSE: Interest expense was $2.3 million for the three month period ended September 30, 2006, compared to $1.7 million for the same period in 2005. The 33.9% increase in interest expense was mainly attributable to an increase in the average balance of FHLB borrowings of $15.4 million for the quarter ended September 30, 2005 as compared to the quarter ended September 30, 2005 and the an increase in the cost of those borrowings of 54 basis points from the period ended September 30, 2005 versus the quarter ended September 30, 2006 due to market interest rate increases. In addition, the cost of interest bearing deposits increased 80 basis points from the quarter ended September 30, 2005 to the same period in 2006.

NET INTEREST INCOME: Net interest income increased to $2.3 million for the three month period ended September 30, 2006 compared to $2.2 million for the same period in 2005. For the three months ended September 30, 2006, average interest-earning assets increased $8.7 million, or 3.4%, when compared to the same period in 2005. Average interest-bearing liabilities increased $11.7 million, or 5.2%, to $238.2 million for the quarter ended September 30, 2006 from $226.5 million for the quarter ended September 30, 2005. The yield on average interest-earning assets increased to 6.84% for the three month period ended September 30, 2006 from 6.00% for the same period ended in 2005 as the cost of average interest-bearing liabilities increased to 3.73% from 2.93% for the three month periods ended September 30, 2006 and September 30, 2005, respectively. The increase in yields on interest earning assets exceeded the impact of the increase in the cost of funds creating an increase in the net interest margin of 8 basis points to 3.52% for the three month period ended September 30, 2006 from 3.44% for same period in 2005.

PROVISION FOR LOAN LOSSES: The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The provision for loan losses amounted to $216,000 for the three month period ended September 30, 2006 and $4,000 for the comparable period in 2005. During the quarter ended September 30, 2005 loan balances had declined, resulting in the lower required provision in that quarter. In addition, during the quarter ended September 30, 2006, the Company increased its reserves on certain commercial and mortgage loans based on deterioration of those credits during the quarter.

NON INTEREST INCOME: Non interest income was $1.0 million for the three month period ended September 30, 2006, a decrease of $65,000 or 5.6%, from the same period in 2005. The primary reasons for the decrease were an $83,000 decrease in mortgage banking activities partially offset by an increase in service charges and other fees of $18,000 for the three month period ended September 30, 2006 as compared to the same period in 2005.

NON INTEREST EXPENSE: Non interest expense was $2.7 million for the three month period ended September 30, 2006, an $87,000 or 3.1% decrease from the same period in 2005. The decrease was primarily due to decreases of $53,000 in compensation and employee benefits, $38,000 in insurance and brokerage commission expense and $14,000 in occupancy expenses partially offset by an increase of $40,000 in amortization of intangible assets due to the acceleration of the amortization period of some of the ICA intangible assets.

INCOME TAXES: Federal income taxes decreased to $163,000 for the three month period ended September 30, 2006 compared to $183,000 for the same period in 2005. The decrease for the three month period was attributable to a decrease in pre-tax income.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

GENERAL: Net income increased $431,000 to $636,000 for the nine months ended September 30, 2006 from $205,000 for the same period ended September 30, 2005. The increase in earnings period over period was primarily attributable to the one-time charitable contribution of $679,940 (approximately $449,000 after tax) to the First Federal Community Foundation which decreased earnings during the nine months ended September 30, 2005 and the collection of $287,000 (approximately $191,000 after tax) in interest and late charges on a non-accrual commercial loan relationship during the nine months ended September 30, 2006. The income tax expense for the nine months ended September 30, 2006 increased by $217,000 as compared to the same period in 2005 due to the increase in pre-tax income period over period.

INTEREST INCOME: Interest income was $12.9 million for the nine months ended September 30, 2006, compared to $11.1 million for the comparable period in 2005. This increase of $1.7 million, or 15.4%, in interest income was due to an increase in average balances of commercial loans, an increase in the average balance and yield on non-mortgage loans (mainly adjustable rate commercial loans) and the collection of a large commercial non-accrual relationship.

INTEREST EXPENSE: Interest expense was $6.2 million for the nine month period ended September 30, 2006 compared to $4.9 million for the same period in 2005. The 26.8% increase in interest expense was attributable to an increased cost of funds on interest-bearing deposits and FHLB advances for the period ended September 30, 2006 compared to September 30, 2005, as well as an increase in the average balance of FHLB advances period over period. The average balance of interest-bearing deposits decreased by $1.4 million or 7.9% for the nine months ended September 30, 2006 when compared to the year earlier period while the cost of those deposits increased by 64 basis points. The average balance of FHLB borrowings increased from $52.1 million for the period ended September 30, 2005 to $60.2 million for the period ended September 30, 2006, while the cost of those borrowings increased by 37 basis points, due primarily to due to market interest rate increases.

NET INTEREST INCOME: Net interest income increased by $397,000 for the nine month period ended September 30, 2006 compared to the same period in 2005. For the nine months ended September 30, 2006, average interest-earning assets increased $14.3 million, or 5.7% when compared to the same period in 2005. Average interest-bearing liabilities increased $9.8 million, or 4.3% for the same period. The yield on average interest-earning assets increased to 6.34% for

the nine month period ended September 30, 2006 from 5.87% for the same period ended in 2005. The cost of average interest-bearing liabilities increased to 3.52% from 2.89% for the nine month periods ended September 30, 2006 and September 30, 2005, respectively. The net result of the 47 basis point increase in asset yields and 63 basis point increase in the cost of funds was a net interest rate margin decrease of 5 basis points to 3.23% for the nine month period ended September 30, 2006, from 3.28% for the same period in 2005.

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DELINQUENT LOANS AND NONPERFORMING ASSETS. The following table sets forth information regarding loans delinquent 90 days or more and real estate owned/other repossessed assets of the Bank at the dates indicated. As of the dates indicated, the Bank did not have any material restructured loans within the meaning of SFAS 15.

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	(Dollars in thousands)	
Total non-accrual loans	$1,353	$1,353
Accrual loans delinquent 90 days or more:		
One- to four-family residential	706	1,684
Other real estate loans	1,475	670
Consumer/Commercial	633	300
Total accrual loans delinquent 90 days or more	$2,814	$2,654
Total nonperforming loans (1)	4,167	4,007
Total real estate owned-residential mortgages (2)	397	427
Total real estate owned-Consumer and other (2)	6	8
Total nonperforming assets	$4,570	$4,442
Total nonperforming loans to loans receivable	1.97%	1.97%
Total nonperforming assets to total assets	1.60%	1.57%

(1) All of the Bank's loans delinquent more than 90 days are classified as nonperforming.

(2) Represents the net book value of property acquired by the Bank through foreclosure or deed in lieu of foreclosure. Upon acquisition, this property is recorded at the lower of its fair market value or the principal balance of the related loan.

PROVISION FOR LOAN LOSSES: The provision for loan losses amounted to $419,000 for the nine month period ended September 30, 2006 and $266,000 for the comparable period in 2005. The ratio of nonperforming loans to total loans was 197 basis points at both September 30, 2006 and December 31, 2005. As a percent of total assets, nonperforming loans increased to 160 basis points at September 30, 2006 from 157 basis points at December 31, 2005. Total nonperforming assets increased only slightly by $128,000 from December 31, 2005 to September 30, 2006

and management believes the provision for loan loss is adequate.

NON INTEREST INCOME: Non interest income was $3.3 million for the nine month period ended September 30, 2006, a decrease of $61,000 or 1.8%, from the same period in 2005. The primary reasons for the decrease were a $144,000 decrease in mortgage banking activities where we continue to experience declining mortgage loan demand and a $57,000 increase in loss on sale of investment securities due to management's decision to sell investment securities at a loss to pay down FHLB borrowings, offset by an increase in service charges and other fees of $54,000 and an increase in other income of $49,000 for the nine month period ended September 30, 2006 as compared to the same period in 2005.

NON INTEREST EXPENSE: Non interest expense was $8.5 million for the nine month period ended September 30, 2006, a $465,000 or 5.2% decrease from the same period in 2005. The decrease was primarily due to the $679,940 one-time contribution to the First Federal Community Foundation in the nine month period ended September 30, 2005 offset by a $139,000 increase in amortization of intangible assets from the nine month period ended September 30, 2005 to the comparable period in 2006.

INCOME TAXES: Federal income tax expense increased to $320,000 for the nine months ended September 30, 2006 compared to $103,000 for the same period in 2005. The increase for the nine month period was attributable to an increase in pre-tax income.

LIQUIDITY

The Company's current liquidity position is more than adequate to fund expected asset growth. The Company's primary sources of funds are deposits, FHLB advances, proceeds from principal and interest payments, prepayments on loans and mortgage-backed and investment securities and sale of long-term fixed-rate mortgages into the secondary market. While maturities and scheduled amortization of loans and mortgage-backed securities are a predictable source of funds, deposit flows, mortgage prepayments and sale of mortgage loans into the secondary market are greatly influenced by general interest rates, economic conditions and competition.

Liquidity represents the amount of an institution's assets that can be quickly and easily converted into cash without significant loss. The most liquid assets are cash, short-term U.S. Government securities, U.S. Government agency securities and certificates of deposit. The Company is required to maintain sufficient levels of liquidity as defined by OTS regulations. This requirement may be varied at the direction of the OTS. Regulations currently in effect require that the Bank must maintain sufficient liquidity to ensure its safe and sound operation. The Company's objective for liquidity is to be above 20%. Liquidity as of September 30, 2006 was $55.7 million, or 29.3% compared to $83.1 million, or 43.4% at December 31, 2005. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. The liquidity calculated by the Company includes additional borrowing capacity available with the FHLB. This borrowing capacity is based on the FHLB stock owned by the Bank along with pledged collateral. As of September 30, 2006, the Bank had unused borrowing capacity totaling $20.4 million at the FHLB based on the FHLB stock ownership.

The Company intends to retain for its portfolio certain originated residential mortgage loans (primarily adjustable rate, balloon and shorter term fixed rate mortgage loans) and to generally sell the remainder in the secondary market. The

Bank will from time to time participate in or originate commercial real estate loans, including real estate development loans. During the nine month period ended September 30, 2006 the Company originated $24.5 million in residential mortgage loans, of which $15.1 million were retained in portfolio while the remainder were sold in the secondary market or are being held for sale. This compares to $42.2 million in originations during the first nine months of 2005 of which $26.7 million were retained in portfolio. The Company also originated $17.9 million of commercial loans and $12.7 million of consumer loans in the first nine months of 2006 compared to $28.4 million of commercial loans and $10.0 million of consumer loans for the same period in 2005. Of total loans receivable, excluding loans held for sale, mortgage loans comprised 48.4% and 52.3%, commercial loans 37.6% and 35.0% and consumer loans 14.0% and 12.8% at September 30, 2006 and December 31, 2005, respectively.

Deposits are a primary source of funds for use in lending and for other general business purposes. At September 30, 2006 deposits funded 63.2% of the Company's total assets compared to 66.8% at December 31, 2005. Certificates of deposit scheduled to mature in less than one year at September 30, 2006 totaled $60.8 million. Management believes that a significant portion of such deposits will remain with the Bank. The Bank monitors the deposit rates offered by competition in the area and sets rates that take into account the prevailing market conditions along with the Bank's liquidity position. Moreover, management believes that the growth in assets is not expected to require significant in-flows of liquidity. As such, the Bank does not expect to be a market leader in rates paid for liabilities.

Borrowings may be used to compensate for seasonal or other reductions in normal sources of funds or for deposit outflows at more than projected levels. Borrowings may also be used on a longer-term basis to support increased lending or investment activities. At September 30, 2006 the Company had $65.7 million in FHLB advances. FHLB borrowings as a percentage of total assets were 22.9% at September 30, 2006 as compared to 18.7% at December 31, 2005. The Company has sufficient available collateral to obtain additional advances of $5.4 million. When this is combined with current FHLB stock ownership the Company could obtain up to an additional $25.8 million in advances from the FHLB.

CAPITAL RESOURCES

Stockholders' equity at September 30, 2006 was $35.6 million, or 12.4% of total assets, compared to $36.6 million, or 13.0% of total assets, at December 31, 2005 (See "Consolidated Statement of Changes in Stockholders' Equity"). The Bank is subject to certain capital-to-assets levels in accordance with OTS regulations. The Bank exceeded all regulatory capital requirements at September 30, 2006. The following table summarizes the Bank's actual capital with the regulatory capital requirements and with requirements to be "Well Capitalized" under prompt corrective action provisions, as of September 30, 2006:

	Actual		Regulatory Minimum		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Dollars in Thousands					
Tangible Capital (to tangible						

assets)	$30,620	10.84%	$ 4,238	1.50%	$ 5,651	2.00%
Tier 1 (Core) capital (to risk - weighted assets)	$30,620	10.84%	$11,302	4.00%	$14,128	5.00%
Total risk-based capital (to risk- weighted assets)	$32,381	16.77%	$15,446	8.00%	$19,308	10.00%
Tier 1 risk-based capital (to tangible assets)	$30,620	15.86%	$ 7,723	4.00%	$11,585	6.00%

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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2006

PART I - FINANCIAL INFORMATION

ITEM 3 - CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms and in timely alerting them to material information relating to the Company (or its consolidated subsidiaries) required to be included in its periodic SEC filings.

There were no significant changes made in the Company's internal control over financial reporting or in other factors that could significantly affect the Company's internal controls over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2006

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings:

There are no material legal proceedings to which the Company is a party or of which any of its property is subject. From time to time the Company is a party to various legal proceedings incident to its business.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds:

Issuer Purchases of Equity Securities

On May 17, 2006 the Company announced a share repurchase program authorizing the repurchase of up to 156,000 shares of the Company's outstanding common stock. All repurchases under the Company's share repurchase program are transacted in the open market and are within the scope of Rule 10b-18, which provides a safe harbor for purchases in a given day if an issuer of equity securities satisfies the manner, timing, price and volume conditions of the rule when repurchasing its own common shares in the open market. The share repurchase program was concluded in the three month period ended September 30, 2006. The following table summarizes the Company's share repurchase activity for the three months ended September 30, 2006.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Shares that Purchased Plans or
7/1/2006 to 7/31/2006	41,833	10.07	41,833	-
8/1/2006 to 8/31/2006	--	--	--	-
9/1/2006 to 9/30/2006	--	--	--	-
Total	41,833	10.07	41,833	

Item 3 - Defaults upon Senior Securities:

Not applicable.

Item 4 - Submission of Matters to a Vote of Security Holders:

Not applicable

Item 5 - Other Information:

Not applicable

Item 6 - Exhibits

Exhibit 31.1 Certification by Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification by Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Statement of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Statement of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2006

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

By: /s/ Martin A. Thomson
Martin A. Thomson
Chief Executive Officer

Date: November 14, 2006

By: /s/ Amy E. Essex
Amy E. Essex, Chief
Financial Officer
(Principal Financial and Accounting Officer)

Date: November 14, 2006

EXHIBIT INDEX

Exhibit No.	Description of Exhibits
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